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SUBJECT: SPECIAL REPRESENTATIVE MERMOUD'S DISCUSSIONS WITH
THE AUSTRIAN GOVERNMENT AND U.S. BUSINESS REPRESENTATIVES

Summary

1. (SBU) Special Representative for Commercial and Business Affairs Frank Mermoud met with Austrian Government officials and U.S. business representatives in Austria on February 23 to discuss market access concerns, GoA views on the Doha Round, the EU's Services Directive, and U.S.-EU economic cooperation. Martin Eichtinger, the Minister of Economy's Chief of Staff, highlighted the GoA's hope that WTO negotiators could make progress on NAMA and services. However, Eichtinger cautioned that the current EU offer on agricultural market access represented a red line, beyond which the EU would not venture. Eichtinger characterized the amended Services Directive as a good compromise, which fostered liberalization and protected Member States against social dumping. Melitta Schubert, the MFA's Transatlantic Coordinator for the EU Presidency, praised USG-EU cooperation on regulatory reform. Schubert listed regulatory reform, IPR cooperation, innovation, and energy security as possible economic deliverables for a U.S.-EU Summit. Christoph Leitl, President of the of the Austrian Chamber of Commerce, stressed the need for a stronger entrepreneurial spirit throughout Europe. Representatives of U.S. pharmaceutical companies outlined difficulties in obtaining reimbursement approvals for innovative drugs. Microsoft Austria pointed out how the high cost of patents in Europe hindered innovation. End Summary.

Ministry of Economy Views on WTO and the Services Directive

2. (SBU) Martin Eichtinger, the Minister of Economy's Chief of Staff, told Special Representative for Commercial and Business Affairs Frank Mermoud that commercial relations between the U.S. and Austria remain strong. According to Eichtinger, there are 450 Austrian companies in the U.S., employing 8,000 workers. The 600 U.S. firms in Austria provide 30,000 jobs for the Austrian economy. Eichtinger noted that Informal Commercial Exchange talks continue to provide an excellent forum to discuss bilateral trade issues.

3. (SBU) On WTO negotiations, Eichtinger said the GoA is pleased that the WTO is dealing with agriculture, services, and NAMA as one package. Eichtinger noted that Austria is especially eager to see tangible progress on NAMA and services, because 40% of Austria's GDP comes from exports of goods and another 15% of GDP from exports of services. Eichtinger cautioned that, on agricultural market access, the current EU offer reflects a red line, beyond which Member States are not willing to allow the Commission to venture. Eichtinger argued that the EU had already registered impressive reforms of the Common Agriculture Policy in recent years, which the current WTO negotiations should acknowledge.

4. (SBU) On the Services Directive, Eichtinger characterized the European Parliament's (EP) recently amended Services Directive as a "good compromise between liberalization and protection against social dumping." The EP, in Eichtinger's opinion, is beginning to assert its views and meaningfully affect policy debates. Eichtinger predicted that the Commission will present a new proposal, based on the EP's version, to the Competitiveness Council at the end of May. Eichtinger stressed that Minister of Economy Martin Bartenstein wanted to finish work on the directive during the Austrian Presidency.

Ministry of Foreign Affairs on U.S.-EU Economic Cooperation

5. (SBU) Melitta Schubert, Head of the MFA's Economic Relations Department and the MFA's Transatlantic Coordinator for the EU Presidency, briefed Mermoud on the MFA's preliminary views concerning economic issues that might arise during a possible U.S.-EU Summit during the Austrian EU Presidency. Schubert highlighted cooperation on regulatory reform as a possible deliverable for a summit. Schubert praised the work of the OMB in this area, but acknowledged that there is still much work to do. Schubert added that the U.S. and European business communities are interested in promoting this issue, because they are both suffering from administrative burdens. Schubert underlined that it would be

very important to consult with the business community on this and other U.S.-EU economic deliverables. She suggested that the Transatlantic Business Dialogue would be a good vehicle to ensure business input into summit preparations.

16. (SBU) Schubert listed several other economic issues that might warrant inclusion in a summit, including IPR cooperation, an air services agreement, and energy security. On IPR, Schubert opined that recent signals from the Commission indicate it is willing to intensify cooperation with the USG, especially in the context of third countries. On energy security, Schubert confided that there is an internal debate within the EU, with some arguing for a "common energy policy." The Commission's Green Paper would most likely provide more direction on energy issues.

Austrian Chamber of Commerce on Entrepreneurial Spirit

17. (SBU) Christoph Leitl, President of the influential Austrian Chamber of Commerce (WKO), told Mermoud that the WKO's main priority during the Austrian Presidency is to stimulate economic growth and reduce unemployment. Leitl said that, across Europe, it is necessary to restore consumer and investor confidence as a prerequisite to higher GDP growth. Leitl noted that Europe needed more entrepreneurial spirit, with "less employees and more employers." At the same time, governments need to invest more in workers and physical and technological infrastructure. In Leitl's opinion, innovation is the nexus for all of these issues.

U.S. Business Community Concerns

18. (SBU) During a roundtable with Mermoud, U.S. company representatives of the Research Based Pharmaceutical Forum (FOPI) outlined market access concerns. FOPI members complained that the GoA process to grant reimbursement status for innovative drugs is unduly burdensome and discriminatory. The process to obtain reimbursement status, which FOPI claims is the third longest in the EU, takes an average of 400 days. This long process naturally cuts into the patent life of the drugs, which FOPI implied might be the GoA's intention in dragging out reimbursement approvals. Moreover, FOPI lamented that, because the entity responsible for reimbursement policy is independent from the Ministry of Health, there is little political incentive to reform the system. Mermoud urged FOPI to focus on the "big picture," not the details, and to engage the GoA as a "health care partner."

19. (SBU) Thomas Lutz, Spokesman for Microsoft Austria, told Mermoud that Microsoft had three priorities in Austria: advocating for minimal IT regulation; promoting innovation; and broadening the information society to all demographic segments. Lutz noted that about 25% of the Austrian population is over 60 years old, and most of this group is not particularly proficient with computers. Microsoft hopes to integrate these groups into the information society. On promoting innovation, Lutz lamented that patents in Europe cost an average of \$30,000, while the average U.S. patent costs \$2,400. On Internet governance, Lutz said the IT sector appreciated the USG's efforts to fight back supranational control of the Internet at the November 2005 WSIS. However, he warned that the idea of creating a supranational organization to control the Internet may only be dormant.

10. (U) EB/CBA Special Representative Mermoud has cleared on this message.
McCaw